

YoY Chg 12-Mo. Forecast

19.6%
Vacancy Rate ▲ ▲

-744.6 K
YTD Net Absorption, SF ▼ ▼

\$34.15
Asking Rent, PSF ▲ —

(Overall Gross, All Property Classes)

ECONOMIC INDICATORS Q4 2023

YoY Chg 12-Mo. Forecast

768.3K
Philadelphia Employment ▲ ▲

3.7%
Philadelphia Unemployment Rate ▼ ▲

3.7%
U.S. Unemployment Rate ▲ ▲

Source: BLS

ECONOMY:

In 2023, the economic landscape in Philadelphia demonstrated remarkable resilience and growth, with noteworthy achievements across various sectors. The Central Business District (CBD) reported a record-low unemployment rate, concluding the year at under 4.0%. What makes this achievement impressive is that it occurred amid an all-time high in labor force participation, showcasing the city's ability to effectively integrate a larger workforce into its economy. The employment landscape in Philadelphia also saw substantial gains in healthcare/education and leisure/hospitality. Both sectors experienced remarkable year-over-year (YOY) growth, recording increases of 4.8% and 6.2%, respectively. These gains propelled both sectors to reach unprecedented levels of employment, marking an all-time high. Notably, professional business services was the only other sector to achieve growth exceeding 1.0% YOY, reflecting a job market approaching its ceiling. As of 2023, all major office-using sectors have either reached or surpassed their historical peaks in employment, underscoring the overall robustness of the city's post-pandemic story.

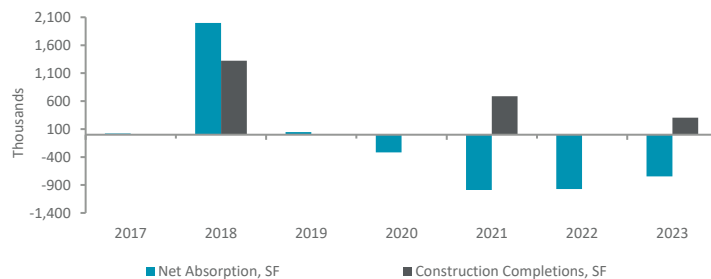
SUPPLY AND DEMAND:

Simultaneously, the Philadelphia office real estate market experienced a historic high in overall vacancy, reaching 19.6%. This figure encompasses a direct vacancy rate of 16.2%, with significant sublease vacancy at 3.4%. Despite the record-setting overall vacancy, the pace of direct vacancy growth notably slowed, with an average quarterly increase of 1.9% throughout 2023. This is a significant improvement, standing 390 basis points (bps) lower than the average quarterly pace observed from 2021 through 2022. Notably, office direct net absorption in 2023 reached its highest point since 2019. However, the sublease net absorption hitting the lowest point on record, a continued impact of hybrid work and subsequent right-sizing. A trend that may hopefully decelerate [as CBD office attendance increased in 2023](#).

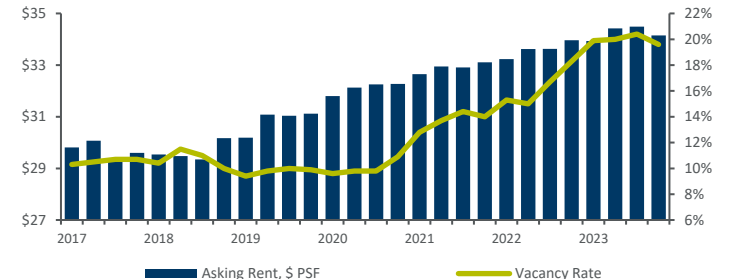
Quality and amenities continue to drive tenant demand as reflected by the performance of trophy assets in 2023. In the CBD, trophy assets ended 2023 at 11.9% overall vacancy, capturing 49.7% of the total CBD leasing activity for the year. However, sublease vacancy has plagued trophy assets, ending 2023 at 3.9%, marking a 152.0% increase YOY. Class A and class A minus properties contributed another 17.5% of leasing activity, an indicator that occupiers continue to favor class A quality, and their amenities in tow. Class B leasing activity accounted for 25.5% of annual leasing activity, a new post-pandemic high. Class A rents grew to more than \$6.50 per square feet (psf) over class B in 2023, and several class A properties fell into distressed situations in 2023, both factors that may drive class B leasing activity in 2024.

Six CMBS financed CBD properties are in special servicing at year-end. These properties represent a combined 1.8 million square feet of vacancy. Given their distressed position, office lending rigidity, historic office vacancy, and declining deal size, there is little relief in sight in this tenant driven market.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
East of Broad	12,593,511	2,013,776	188,627	17.5%	56,375	-50,850	252,723	462,000	\$32.66	\$34.49
West of Broad	29,188,954	4,758,750	1,215,402	20.5%	257,659	-693,747	943,657	438,000	\$34.61	\$35.90
CBD	41,782,465	6,772,526	1,404,029	19.6%	314,034	-744,597	1,196,380	900,000	\$34.15	\$35.62
Naval Yard	782,997	23,086	216,842	30.6%	-9,063	-15,618	24,003	0	\$31.56	\$31.56
University City	3,604,403	175,265	76,476	7.0%	15,655	-46,767	125,559	0	\$36.99	\$45.68
Bala Cynwyd	2,718,024	356,090	135,313	18.1%	-9,319	13,402	106,904	0	\$36.32	\$36.65
Southern Bucks County	6,262,103	1,191,566	253,051	23.1%	2,159	-124,631	160,808	0	\$26.10	\$28.23
Southern Route 202 Corridor	6,164,423	1,114,420	137,287	20.3%	-116,711	-110,306	122,526	0	\$25.73	\$26.20
Delaware County	4,561,028	707,699	152,424	18.9%	-139,248	-177,918	80,897	0	\$28.73	\$29.37
Blue Bell/Ply. Mtg./Ft. Wsh.	11,693,148	2,723,927	464,332	27.3%	-106,994	-435,497	540,674	0	\$26.11	\$28.24
Main Line	3,570,734	402,667	52,968	12.8%	22,546	-48,528	139,189	145,000	\$39.56	\$42.98
Conshohocken	4,191,090	601,302	171,093	18.4%	94,275	-92,855	207,235	0	\$37.43	\$38.22
Horsham/Willow Grove/Jenkt.	5,221,411	1,205,413	72,048	24.5%	28,645	-136,972	144,039	0	\$21.59	\$23.13
King of Prussia/Valley Forge	17,675,540	3,102,880	736,048	21.7%	-404,154	-709,208	695,548	0	\$28.87	\$29.95
SUBURBAN PHILADELPHIA	62,057,501	11,405,964	2,174,564	21.9%	-628,801	-1,822,513	2,197,820	145,000	\$28.09	\$29.80
Burlington County	7,850,029	1,170,526	119,822	16.4%	23,707	-63,452	622,264	0	\$21.21	\$25.47
Camden County	6,379,005	1,105,425	0	17.3%	-59,726	-118,570	236,349	0	\$21.00	\$23.44
SOUTHERN NEW JERSEY	14,229,034	2,275,951	119,822	16.8%	-36,019	-182,022	858,613	0	\$21.10	\$24.92
Wilmington-CBD	7,117,093	1,868,787	65,340	27.2%	-23,599	-131,918	118,558	0	\$27.66	\$28.12
New Castle-Suburban	9,190,417	1,409,111	97,792	16.4%	-862	-137,695	445,462	0	\$22.66	\$23.19
NEW CASTLE CTY-DE TOTAL	16,307,510	3,277,898	163,132	21.1%	-24,461	-269,613	564,020	0	\$25.41	\$26.15
Lehigh & Northamp. Counties	7,551,415	1,426,862	0	18.9%	-12,083	-204,437	112,726	0	\$21.31	\$23.33
PHILADELPHIA TOTALS***	134,376,510	23,732,339	3,861,547	20.5%	-375,247	-3,018,745	4,816,833	1,045,000	\$29.14	\$31.40

*Rental rates reflect full-service gross **Does not include renewals ***Does not include Lehigh & Northampton Counties, Naval Yard, and University City submarkets

KEY LEASE TRANSACTIONS 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1735 Market Street	West of Broad	KPMG	97,448	Sublease
833 Chestnut Street**	East of Broad	Rothman Orthopedic Institute	33,851 / 46,931	Renewal* / Expansion
2001 Market Street	West of Broad	Fox Rothschild	79,337	New Lease
3535 Market Street**	University City	Penn Medicine	75,363	New Lease
1650 Market Street**	West of Broad	Glenmede Trust Company	74,091	New Lease

*Renewals not included in leasing statistics **Cushman & Wakefield deal

MICHAEL HANES

Sr. Research Manager

+1 215 963 4037

Michael.Hanes@cushwake.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

©2024 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com